THABAZIMBI
LOCAL MUNICIPALITY



VIREMENT POLICY

Thabazimbi Local Municipality Virement Policy 2018/19

1. Background and Purpose

1.1 Virement is the process of transferring funds from one line item of a budget to another. The term is derived from a French word meaning a commercial transfer.

1.2 Each year, the Municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters) or savings. As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the Local Government: Municipal Finance Management Act ("MFMA") is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

1.3 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

2. Application of Policy

2.1 This policy applies only to transfers between line items within votes of the Municipality's operating budget.

2.2 Section 28(2) (d) of the MFMA provides that *"An adjustments budget…may authorise the utilisation of projected savings in one vote towards spending in another vote."* Transfers between votes may therefore be authorised only by the Council of the Municipality.

2.3 For ease of reference, the definition of "vote" as contained in Section 1 of the MFMA is set out hereunder:

"vote means –

(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned."

2.4 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.

2.5 Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the council through an adjustments budget.

3. Authorisation of Virements

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

3.1 If the amount does not exceed R 1,000.00, the transfer may be authorised by the Chief Financial Officer of the Municipality or the Municipal Manager of the Municipality after consultation with the Chief Financial Officer;

3.2 If the amount exceeds R 1,000.00 but does not exceed R 5,000.00, the transfer may be authorised by the Municipal Manager after consultation with the Chief Financial Officer;

3.3 If the amount exceeds R 5,000.00 but does not exceed R 10,000.00, the transfer may be authorised by the Mayor of the Municipality on the recommendation of the Municipal Manager.

3.4 Notwithstanding the provisions of 3.1, a transfer of funds between cost or functional centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by:

3.4.1 the Municipal Manager, if the amount does not exceed the amount of

R 5,000.00;

3.4.2 the Mayor, if the cost exceeds the amount of R 5,000.00 but does not exceed R 10,000.00.

4. Limitations on amount of Virement

4.1 Notwithstanding the provisions of section 3:

4.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 15% of the amount allocated to that vote;

4.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 5 % of the total operating budget for that year;

4.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 4.1 above may, however, be performed if the Council by resolution approves thereof.

5. Virement Permitted only if Savings are Projected

A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

6. Further Restrictions on Virement

6.1 A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

6.1.1 contravene any policy of the Municipality; or

6.1.2 alter the approved outcomes or outputs of an Integrated Development Plan; or

6.1.3 result in any adjustment to the Service Delivery and Budget Implementation Plan.

6.2 No transfer of funds shall be permitted if same were to result in any change to the staff establishment of the Municipality, except if the Municipal Manager approves of such change.

6.3 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.

6.4 Transfers of funds may not be made under this policy between or from capital items or projects .

6.5 To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

6.6 By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.

6.7 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

6.8 The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

6.9 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.

6.10 The approval of any transfer shall not *per se* constitute authorisation for expenditure, and all expenditure resulting from approved transfers must, be carried out in accordance with the Municipality's Supply Chain Management Policy.

6.11 The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51(Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inter alia, as follows:

1. "*Virements should not be permitted in relation to the revenue side of the budget;*

2. *Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the*

management of central insurance funds and insurance claims from separate votes);

3. *Virements from the capital budget to the operating budget should not be permitted;*

4. *Virements towards personnel expenditure should not be permitted;*

5. *Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;*

6. *Virements should not result in adding 'new' projects to the Capital Budget;*

7. *Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted."*

7 Procedure for Virement

7.1 Proposals for transfers may be made by the Head of Department concerned.

7.2 The Municipal Manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

7.2.1 the name of the department concerned;

7.2.2 descriptions of the line items from and to which the transfer is to be made;

7.2.3 the amount of the proposed transfer;

7.2.4 the cause of the saving in the line item from which the transfer is to be made;

7.2.5 the justification for the transfer;

7.2.6 a description of any consequences that such transfer my have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

7.3 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer and if :

7.3.1 the amount of the transfer does not exceed the amount referred to in section 3.1 and the transfer is not between cost or functional centres, the Chief Financial Officer shall:

7.3.1.1 approve the proposal, or

7.3.1.2 reject the proposal; or

7.3.1.3 refer the proposal to the Municipal Manager for approval or rejection;

7.3.2 the amount of the transfer does not exceed the amount referred to in section 3.1 but the transfer is between cost or functional centres, or if it falls within the range of amounts referred to in section 3.2, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

7.3.3 the amount of the transfer falls within the range of the amounts referred to in section 3.3, the Chief Financial Officer shall refer the matter to the Municipal Manger who in turn shall refer the matter to the Mayor, together with his recommendations, and the Mayor shall either approve or reject the proposal.

7.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

8. Reporting

The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter (September; December; March; June).

9. General

9.1 The Municipal Manager shall be responsible for the implementation and administration of this Policy.

9.2 This policy will be effective on the 01 of July 2017